APRIL, 1935

The Real Estate ANALYST

THE IMPENDING HOUSING SHORTAGE

MORE than a year ago, on page 247 of the Real Estate Analyst, we stated, "We are convinced that the entire United States is headed for an urban housing shortage, which will become acute during 1935 or 1936. The result of this shortage will be to make rentals skyrocket". At the time this statement was made, dwelling unit vacancy in Saint Louis was 7.8%. Apartment vacancy in Omaha was 10%. Other cities had comparable percentages.

Residential vacancy has been declining at a rapid rate in all cities. Our index of residential vacancy in Saint Louis showed the greatest drop this March we have so far experienced. On April 8 our check showed 4.5% vacancy in contrast with 6.1% on March 7. This represents an absorption during the month of more than 3500 dwelling units. Were this rate of absorption to continue for three months more, it would produce the most drastic housing shortage at the end of that time that we have ever experienced. It will not continue at this rate, but a housing shortage of serious proportions is clearly inevitable in the near future, assuming only a reasonable amount of further business recovery. The situation in Omaha during the last few months is becoming equally acute. (See chart on page 389.) Ninety per cent of the cities supplying us information report substantially the same shortage developing.

That the second clause of our forecast will also be true, "the result of this shortage will be to make rentals skyrocket", seems too elementary to need discussion. A shortage of any specific commodity in relation to the demand for it always increases its relative price. It makes little difference what the commodity is. Beef cattle or metal, peanuts or real estate--all are governed by the law of supply and demand. The more acute the shortage, the higher the price will go.

Rising rentals with decreased vacancy will increase real estate values. As values increase people will again buy real estate on a rising market, at first for use, later for resale--and the boom is on.

We have been almost begging our clients to buy equities for the past two years. In January, 1934 (page 223) we said, "Now is the time to buy! We cannot emphasize this fact too much. If you are a broker and would befriend your client - make him buy.....If real estate is not your business and if you are fortunate enough to have liquid assets - buy. No risk you take now can even approach the risks you eagerly assumed five or more years ago." It is not yet too late to buy for a profit, nor will it be in 1936 or 1937; but the safest and largest profit will be made by those who have bought or those who will buy before the improvement is clearly apparent to the general public.

INFLATION AND REAL ESTATE

WE have quite frequently been asked the effect of wild inflation on real estate in Germany, Austria, and France by people who fear we may be headed in the same direction. We are not convinced that inflation of that type is at all probable in the United States, but we are forced to admit that it is within the range of possibility.

All wild inflations in history have been brought on by unbalanced budgets. The United States News pointed out the other day that federal disbursements from July, 1933, to July, 1936, will equal the total expenditures of the United States for the 124 years from 1789 to July, 1913 including the cost of the War of 1812, the Civil War, the War with Mexico, and the Spanish-American War. While we will admit that these figures are alarming, we cannot yet agree that we are already in the incubation stage of extreme inflation as some people now believe. While our national debt by 1936 will probably exceed thirty-two billion dollars, it will still be less than a third of the per capita debt of England.

We are convinced, however, that some inflation, most probably of the credit variety, is inevitable. The wise investor will adopt a policy which will be well suited to the probable developments, but which will still protect his principal should the improbable, but possible, develop.

The policy of investing in well-selected real estate equities seems to us to provide all of the possible safeguards against inflation provided certain general policies are followed. Many real estate equities in Germany, Austria, and France were wiped out as completely as investments in bonds during their inflations, due to a failure on the part of the owners to realize in time the necessity for these policies.

In view of the certainty of at least a controlled inflation in the United States and the slight possibility of an uncontrolled one, what policy should an investor follow to preserve the purchasing power of his investment?

Buy real estate, but avoid leases for periods of more than a year on a fixed rental basis on any properties you own. On residential properties take month to month tenants wherever possible. Operating expenses and taxes will rise with inflation. Unless rents can rise by a proportionate amount many properties will be lost as they were in Europe. Even a mild inflation may bring about this result. The coke bill for the winter of 1923-24 for the Home for the Aged in Frankfort-am-Main went to 10,246,434,361,231,396 marks. It is not necessary that prices in the United States go to such stratospheric levels. A mere doubling of the operating expense of an American investment property may be sufficient to destroy the equity if the income is fixed for a period of years.

On commercial property wherever possible make percentage leases with fixed minimums. Under this type of lease, as the general price level rises bringing with it the inevitable increase in operating costs, rentals will keep step.

If this policy is followed, principal invested in real estate should be safe regardless of whether inflation is mild or wild.

ADVERTISED RENTALS ON DWELLING UNITS

THE Real Estate Analyst computes the average advertised rentals of residential units of various types and sizes each month in the twenty-five metropolitan cities listed below. The figures given are average rentals per month per room for all units of each type, large and small, advertised in the classified columns of the leading newspapers of each city. The lines show for each city the relative change for the last three months. The heavy black lines at the bottom show the composite for all cities.

It is to be expected that the average of all places advertised for rent will vary considerably from month to month due to the inclusion some months of a larger number of either high or low priced units. However, the surprising thing is not these occasional "freakish"swings but the regular rises and falls shown by these figures over a period of months or years. That the trend is definitely up in most cities is clearly indicated by the figures below. These figures will be carried each month in the Real Estate Analyst.

CITY	SINGLE FAMILY			APARTMENTS		
	Jan.	Feb.	Mar.	Jan.	Feb.	Mar.
Atlanta	$ 5.66	$ 5.74	$ 5.56	$ 8.42	$ 9.80	$ 9.90
Baltimore	4.86	4.98	5.19	10.83	11.27	12.09
Birmingham	4.43	4.43	4.57	8.36	8.62	8.63
Boston	6.04	6.65	6.70	9.55	11.75	11.36
Chicago	7.99	8.59	9.86	11.68	12.32	11.86
Cincinnati	7.66	7.33	7.33	10.70	10.82	10.67
Cleveland	6.93	6.64	7.34	8.43	9.24	9.84
Columbus	5.31	5.17	4.35	9.01	9.09	8.89
Denver	4.89	4.78	4.72	9.70	9.88	10.08
Detroit	5.73	6.02	6.60	9.60	10.08	10.47
Houston	6.44	6.53	6.69	8.68	8.38	8.63
Los Angeles	8.43	8.52	8.33	10.23	9.76	10.38
Milwaukee	6.94	7.60	8.21	9.32	9.70	9.97
Minneapolis	4.89	4.97	5.19	8.89	9.09	9.17
New Orleans	4.87	4.79	4.70	8.23	8.22	8.73
New York	12.20	12.28	13.25	17.29	16.87	16.41
Omaha	4.69	4.86	5.13	10.30	10.29	10.33
Philadelphia	5.38	5.58	5.76	13.66	14.57	14.61
Pittsburgh	6.29	6.72	7.28	8.81	9.43	9.88
Richmond	5.82	5.50	5.42	-	9.56	9.57
Saint Louis	5.69	5.64	5.89	8.62	8.66	8.76
Salt Lake City	4.44	4.39	4.66	9.22	9.08	9.20
San Francisco	7.15	6.50	6.62	11.36	10.92	10.67
Seattle	5.02	4.97	5.33	10.10	10.24	10.21
Tulsa	5.85	5.97	5.77			
			AVERAGE			AVERAGE

PROPORTION OF RENTAL PAID IN TAXES 1862 - 1935

THE charts on pages 386 and 387 in this issue are the result of an effort to approximate the percentage of gross residential rental paid in real estate taxes today in contrast with the percentage paid in the past. The top chart shows an index of real estate taxes per family in contrast with an index of residential rentals. Both lines are based on figures for Saint Louis, but comparisons we have made with figures from other cities for years in which figures of this type were available lead us to believe that these relationships are typical of most urban communities.

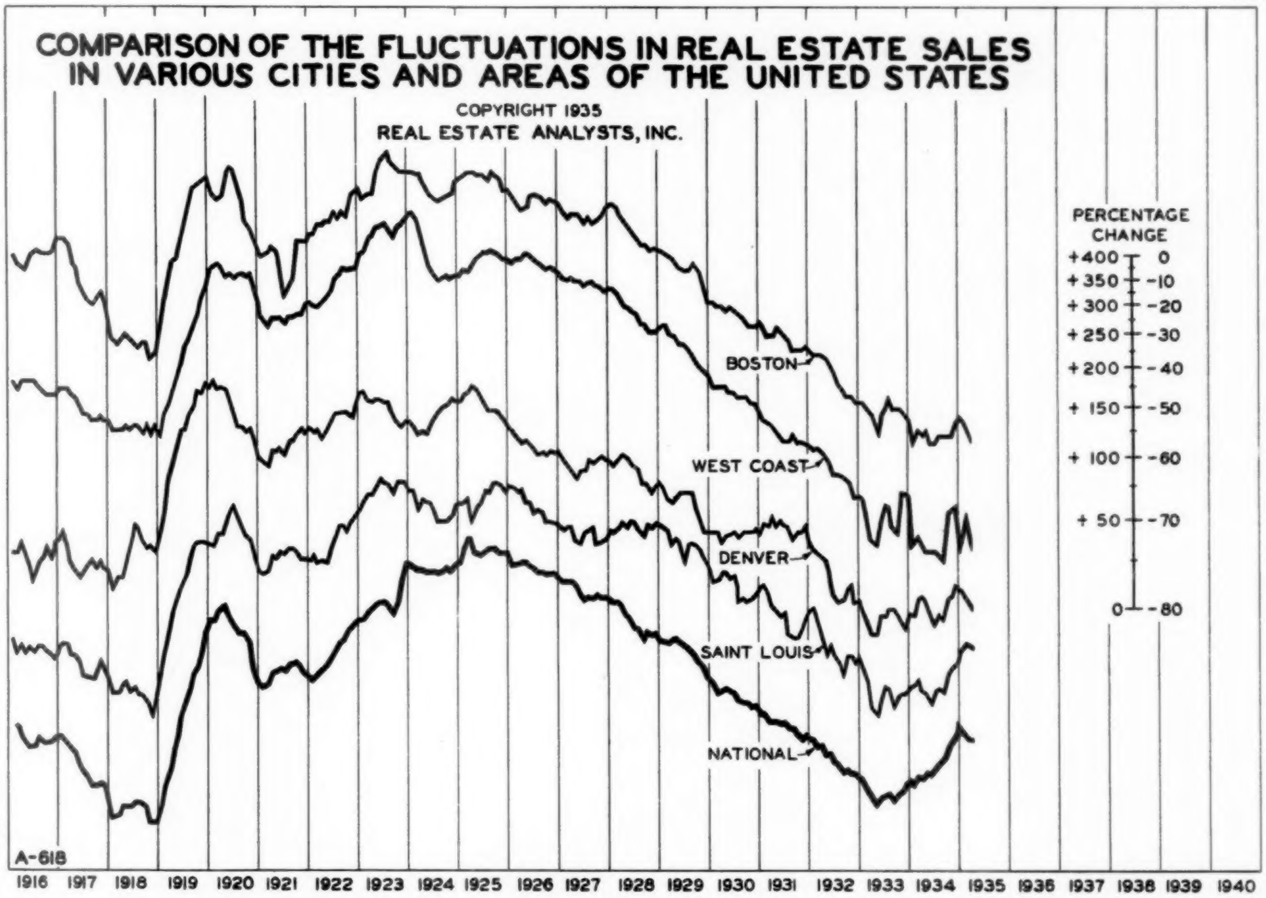
The bottom chart shows the proportion of gross rental paid out in taxes each year from 1862 to the present. By gross rental we mean the total amount of rental which would be collected were there no vacancies and no loss in collections. If rental actually collected were the basis of this chart, all percentages would be higher; and for many periods the percentages would be far above those shown on the chart.

It will be noticed that the percentage paid in taxes increases quite frequently when taxes are dropping. This is true of the past four or five years. Rentals have fallen so much faster than taxes that the percentage paid in taxes has increased to the highest level on the chart. We are inclined to believe that the figure for 1935 will show a slight drop as taxes are now falling or stationary, while rentals have again started increasing. By 1937 or 1938 we believe this line will drop sharply, but from that time on we would not be at all surprised to see taxes again increasing at a rate almost as rapid as the rate of increase we expect for rentals.

RENT CONTROL

WE are of the opinion that there will be many efforts on the part of governments, municipal, state, and national, to curb rents through various types of rent control legislation. An effort has already been made (and defeated) in Washington, D. C.

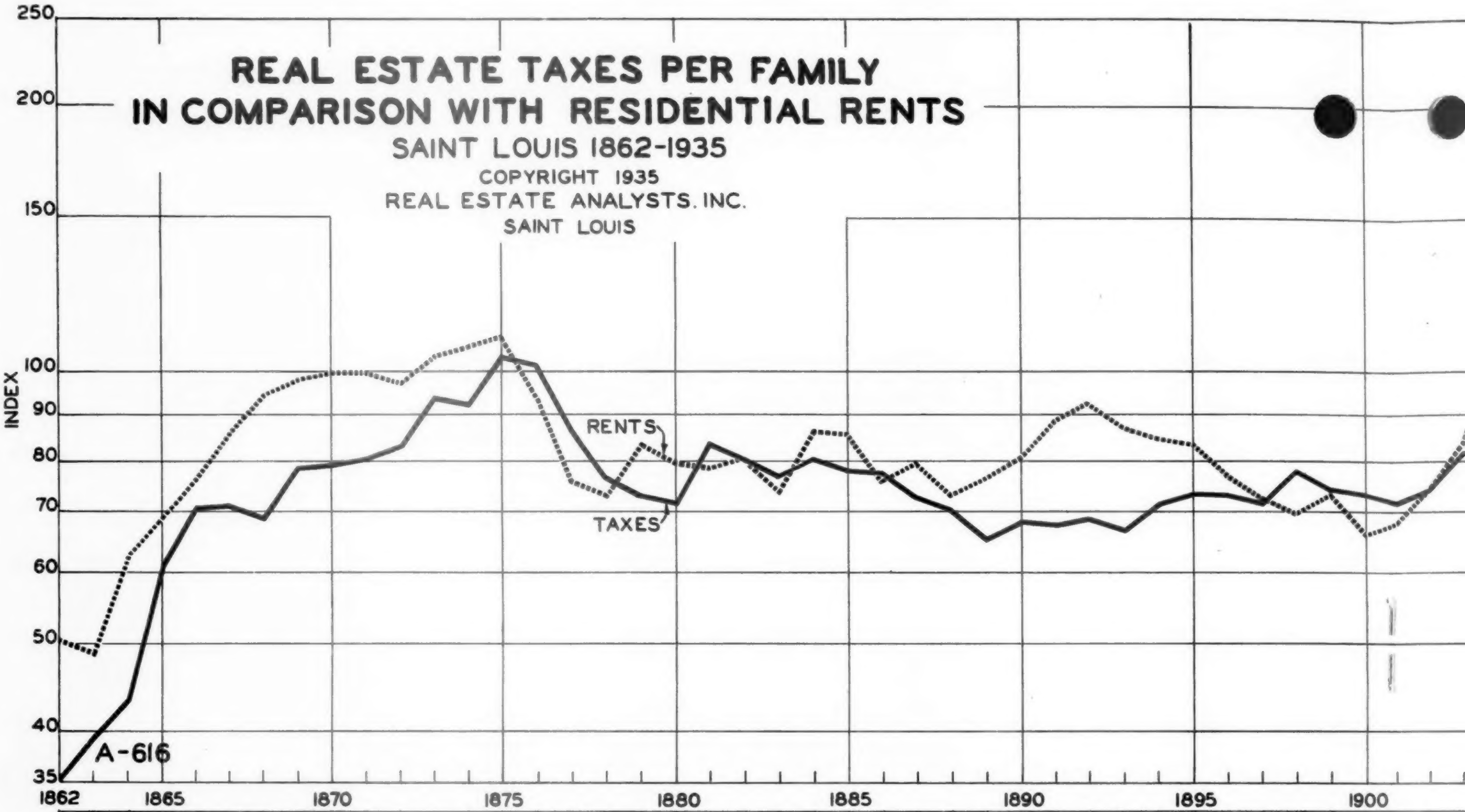
Rent control is unsound in principle and defeats the very purpose for which it is designed. Rents high in relation to other commodities are an indication that the demand for housing exceeds the supply. Our studies of the past have shown conclusively that the supply will not be augmented until rentals and values have reached the point where new construction at current levels seems justified by the income which can reasonably be expected. High rentals augment the supply of housing units and curb any possibility of rent profiteering for an extended period.

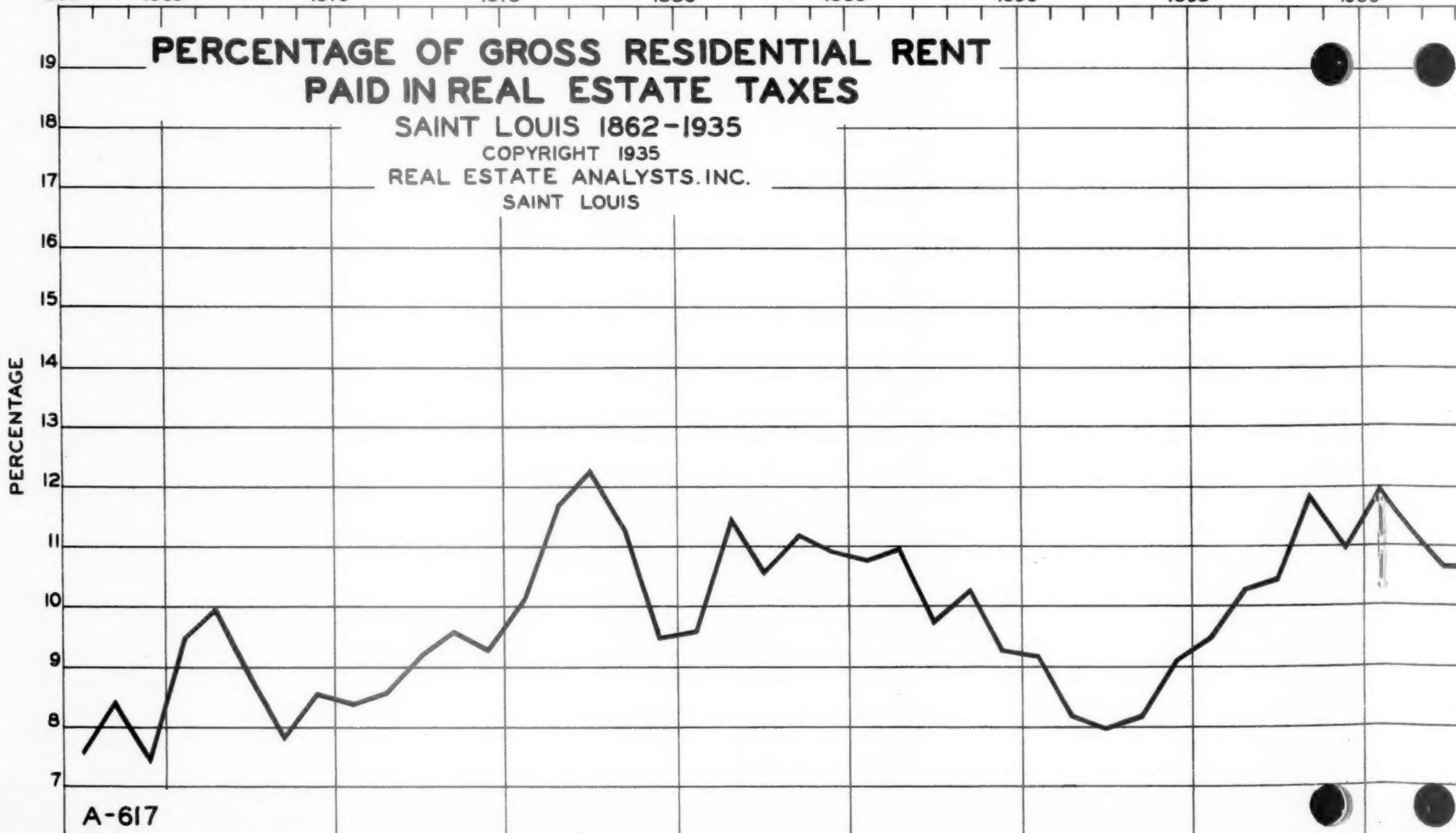


THE chart above shows the relative fluctuations in the sales of real estate in various cities and sections of the United States from 1916 to the present. Real Estate Analysts, Inc., is trying to work back each major city of the United States in a similar fashion. To complete this will probably take several years, but sufficient cities have now been charted to show that (at least in the period included in this study) the similarities between cities are great and the differences slight.

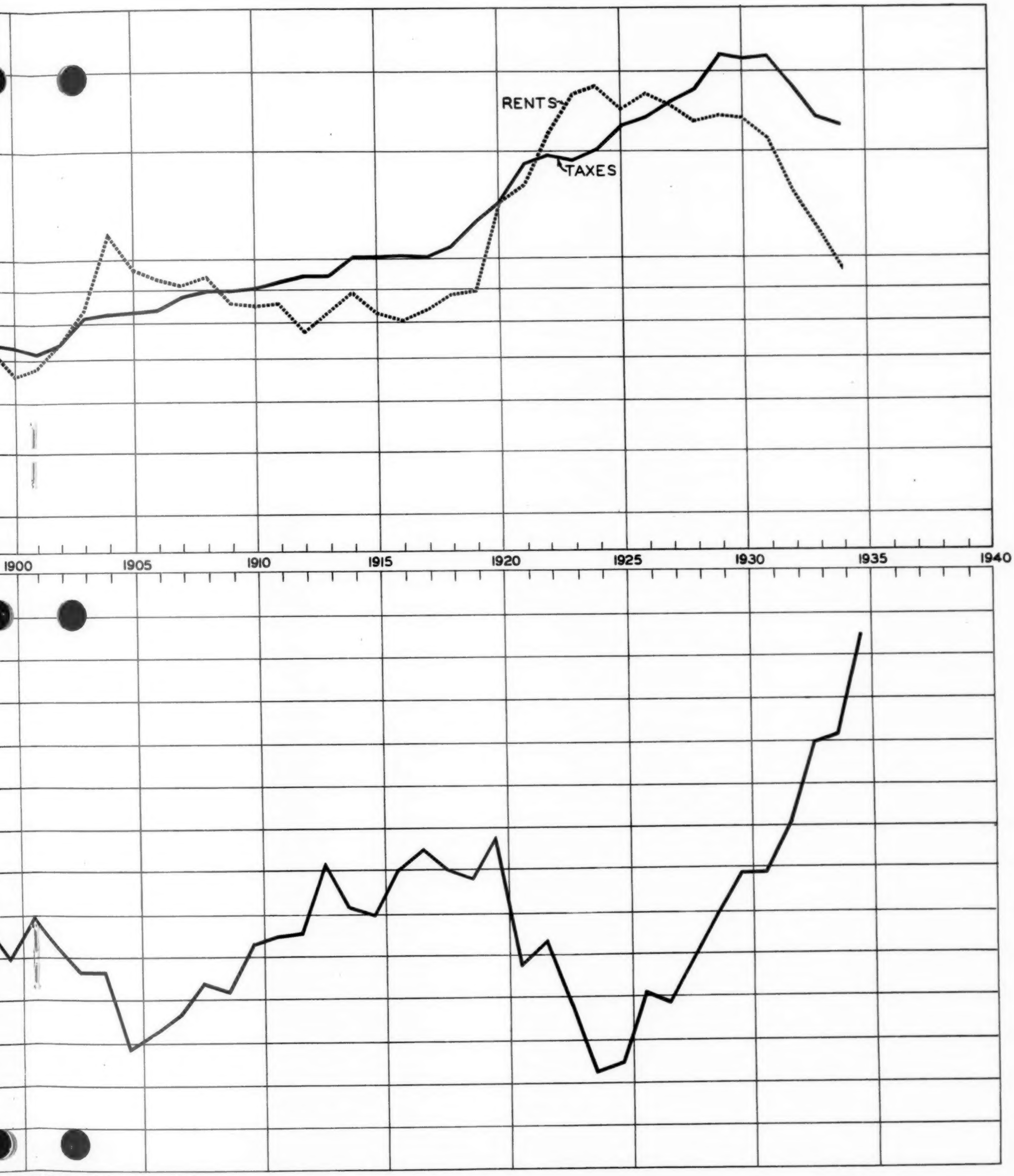
A study of these general cycles is essential, as values in almost all cases are affected to a greater extent by these swings than they are by local circumstances. The drop in the general price level from 1926 to the present has affected each piece of real estate to a far greater degree than has the great bulk of local influences, which are generally considered so carefully in a purchase. We are not advising decreased attention to these factors, as they <u>are</u> important; but we feel we cannot emphasize too much, in view of its general neglect, the importance of the major cycles in influencing real estate values.

Since, over a period of years this similarity in the general cycles exists, it seems to us that a study of the national cycles, as shown on the back page of this issue, is of primary importance to every person interested in real estate regardless of its location. If the recovery of real estate is not proceeding in your community as fast as the national chart would indicate that it should, do not be discouraged. There would be far more reason for misgivings if your territory were experiencing a radical upturn in real estate not experienced by the rest of the country.

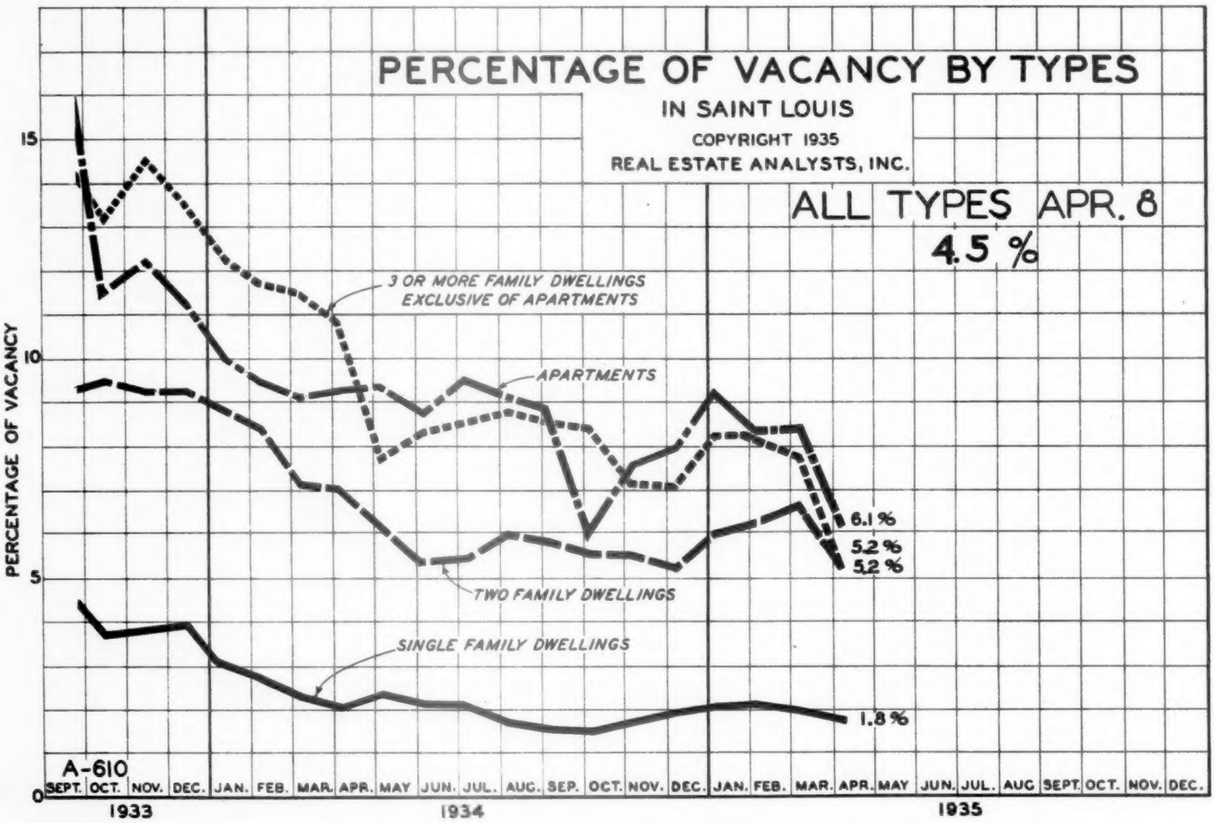




SEE EXPLANATION OF THESE CH

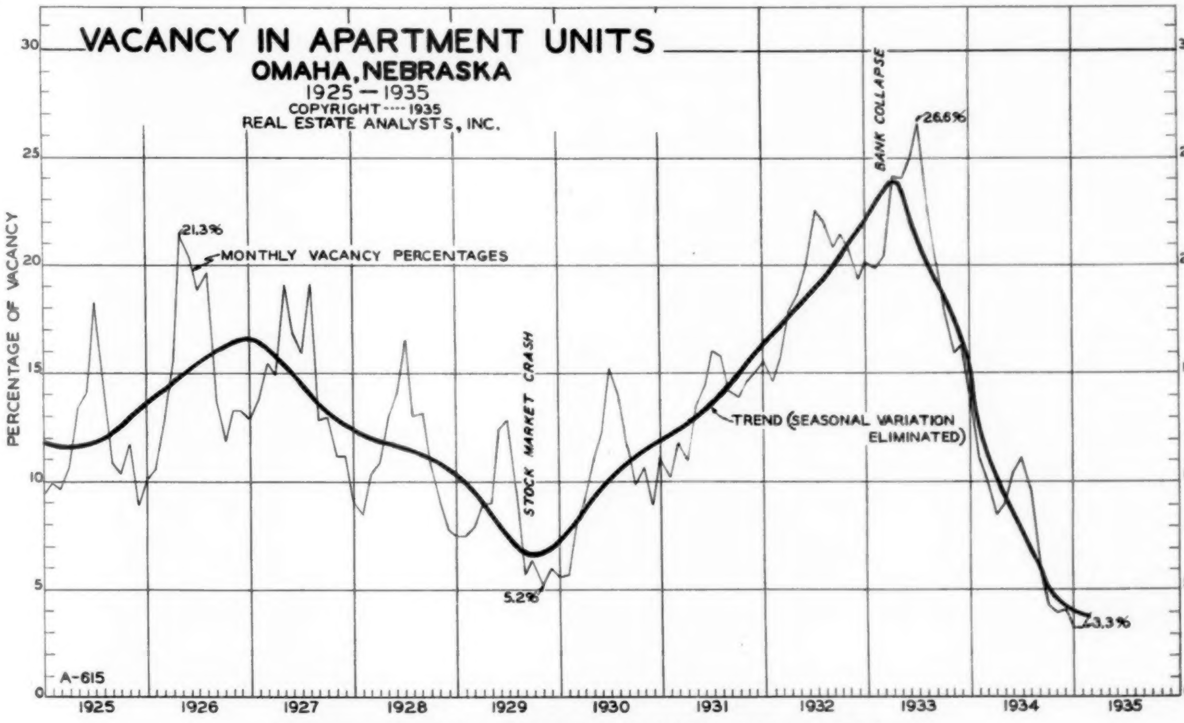


OF THESE CHARTS ON PAGE 384



DURING March the absorption of residential vacancy in Saint Louis was the most rapid we have ever experienced. A glance at the chart above or the table below will show how great the absorption has been during the past year.

Month	Vacancy	%	Absorption
November '32	28,207	12.8	
September '33	23,354	10.4	894
October	22,460	10.0	2,010
November	20,450	9.1	-900
December	21,350	9.5	1,102
January '34	20,248	9.1	1,598
February	18,650	8.3	1,100
March	17,550	7.8	900
April	16,650	7.4	1,950
May	14,700	7.5	1,200
June	13,500	6.0	-500
July	14,000	6.3	0
August	14,000	6.3	400
September	13,600	6.1	1,100
October	12,500	5.6	400
November	12,100	5.4	0
December	12,100	5.4	-1800
January '35	13,900	6.2	0
February	13,900	6.2	300
March	13,600	6.1	3,670
April	9,930	4.5	
Absorption since November, 1932			18,275

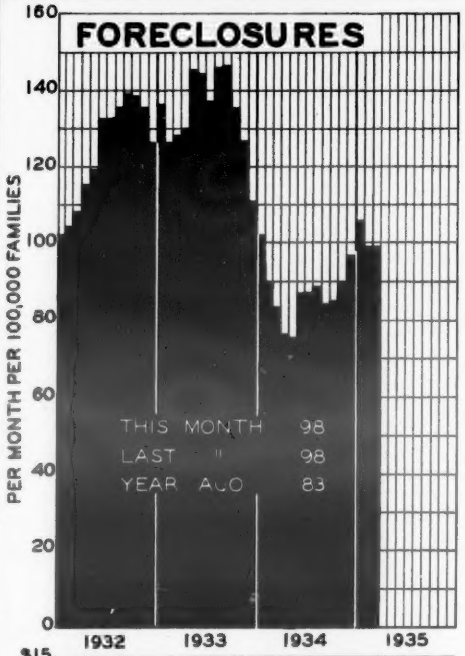


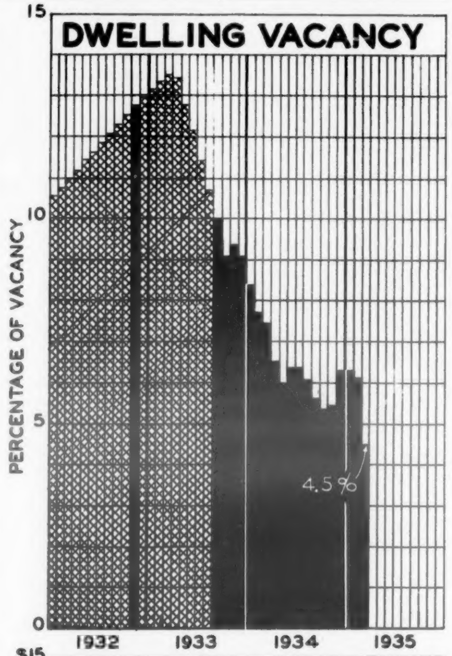
OVERBUILDING AND VACANCY

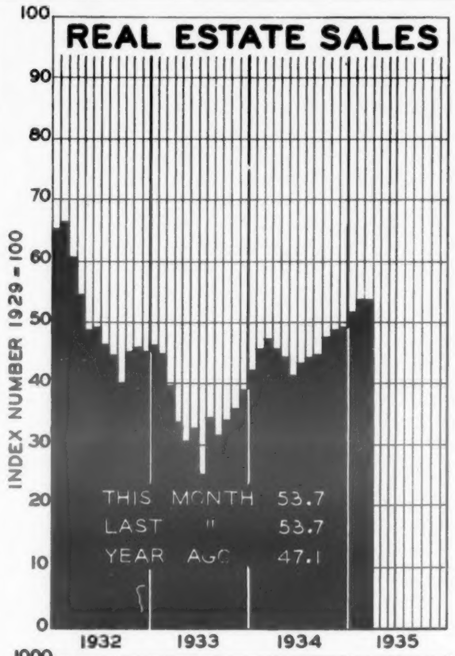
HIGH vacancy may be due either to overbuilding or to a contraction of space requirements. If it is due to overbuilding, the only cure is sufficient growth to absorb the excess units or the elapsing of sufficient time to eliminate the older units through depreciation and obsolescence. That, in recent years, it has been due largely to the contraction of space requirements is quite apparent from the chart of apartment vacancy in Omaha as shown above. Vacancy started climbing right after the stock market crash and climbed rapidly until the bank collapse in 1933. There was practically no new building during this period as can be seen by referring to the chart on the back page of this issue. Since the number of dwelling units was not being increased, the increase in vacancy could be due only to the reduction of space requirements of existing families through doubling up, delayed marriages, etc. Had it been due principally to overbuilding, the peak in vacancy would have occurred at the end of the last building boom. It will be noticed that by the time of the stock market crash vacancy had dropped to half its 1926 level.

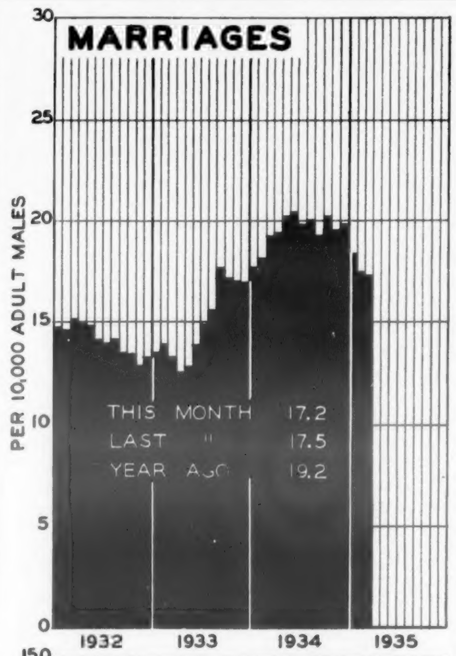
The monthly figures on which this chart is based were furnished by Harold C. Payne and include more than fifty per cent of all apartment units in Omaha. The light line shows the actual percentage of vacancy each month; the heavy line, the trend corrected for seasonal fluctuation. This chart is typical of most urban communities, at least in its general characteristics.

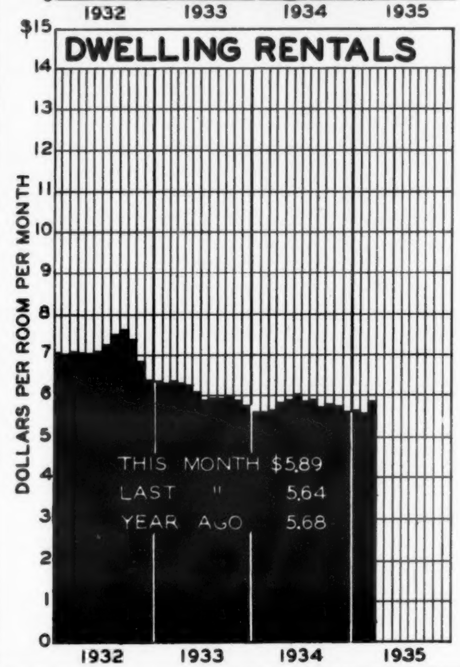
Vacancy due to contraction of space requirements may decrease, when industrial conditions improve, as rapidly as it increased with increasing economic distress. The fact that the limited business revival since the bank collapse has caused the astonishingly rapid drop in vacancy is quite significant of the intensity of the housing shortage which will develop with real recovery.

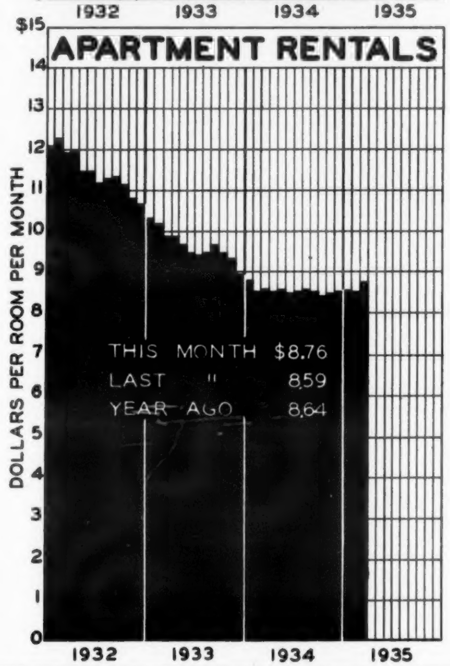

FORECLOSURES
PER MONTH PER 100,000 FAMILIES
THIS MONTH 98
LAST " 98
YEAR AGO 83
1932 1933 1934 1935

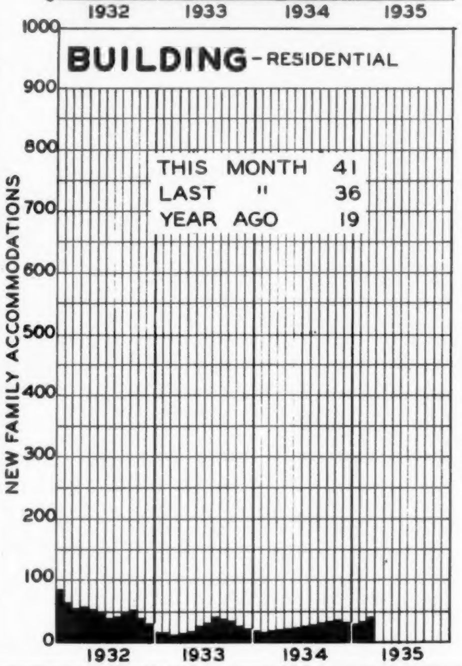

DWELLING VACANCY
PERCENTAGE OF VACANCY
4.5%
1932 1933 1934 1935

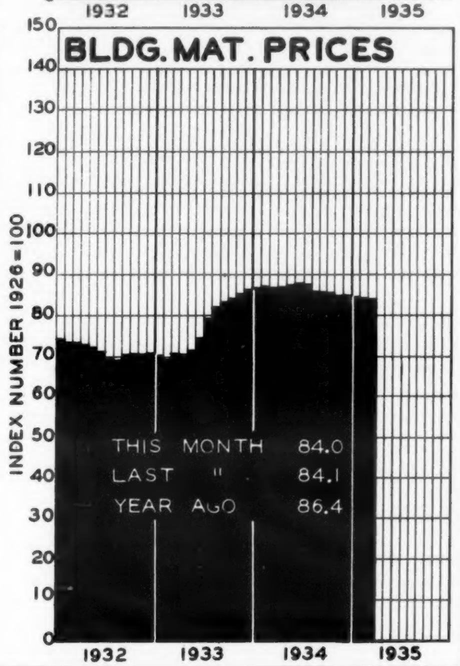

REAL ESTATE SALES
INDEX NUMBER 1929 = 100
THIS MONTH 53.7
LAST " 53.7
YEAR AGO 47.1
1932 1933 1934 1935


MARRIAGES
PER 10,000 ADULT MALES
THIS MONTH 17.2
LAST " 17.5
YEAR AGO 19.2
1932 1933 1934 1935


DWELLING RENTALS
DOLLARS PER ROOM PER MONTH
THIS MONTH $5.89
LAST " 5.64
YEAR AGO 5.68
1932 1933 1934 1935


APARTMENT RENTALS
DOLLARS PER ROOM PER MONTH
THIS MONTH $8.76
LAST " 8.59
YEAR AGO 8.64
1932 1933 1934 1935


BUILDING - RESIDENTIAL
NEW FAMILY ACCOMMODATIONS
THIS MONTH 41
LAST " 36
YEAR AGO 19
1932 1933 1934 1935


BLDG. MAT. PRICES
INDEX NUMBER 1926 = 100
THIS MONTH 84.0
LAST " 84.1
YEAR AGO 86.4
1932 1933 1934 1935

REAL ESTATE ACTIVITY

THE chart on the back page of this issue will be a regular feature of the Real Estate Analyst. It is based on figures received regularly by air mail from twenty-four metropolitan areas comprising in all, one hundred seventy-five cities of from five thousand to more than three million population. The black areas indicate booms and depressions as measured by brokerage activity. The dotted line shows the fluctuations in the number of new mortgages recorded; and the black line, the fluctuations in the number of new family accommodations provided by all new building. All data on the chart are shown as percentages above or below normal.

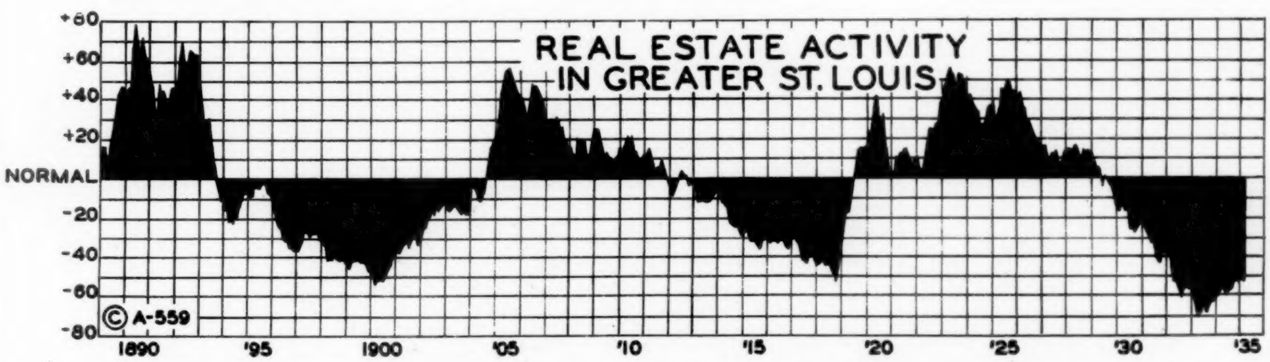
It should be kept in mind that the cycles shown on this chart have been continuing in fairly regular sequence for at least a hundred years. (See article and chart on page 372 in the March, 1935 Real Estate Analyst.) The cycles of real estate activity as they have occurred in Saint Louis during the past forty-six years are shown in the chart below.

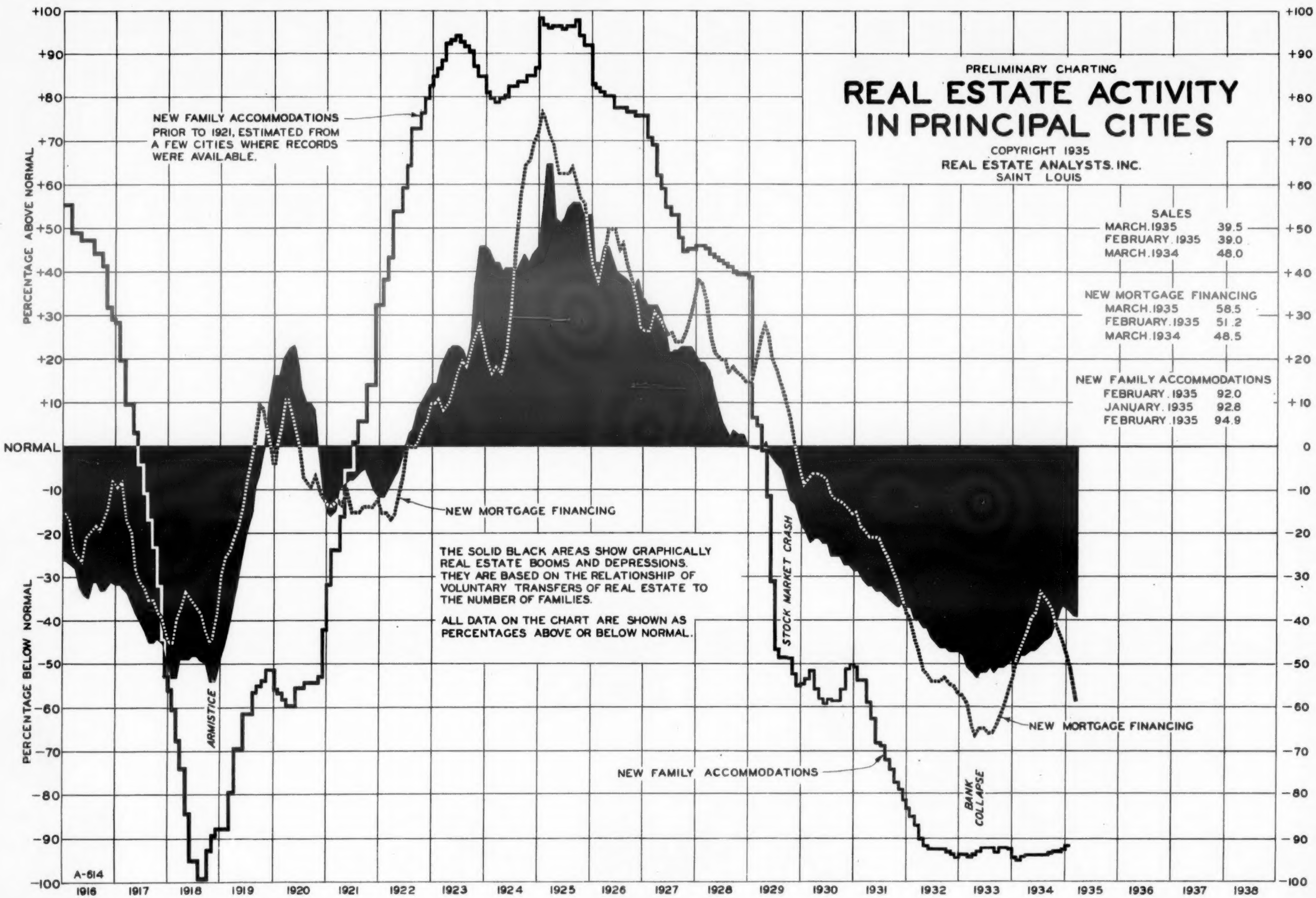
The tremendous swings in the volume of new building, as shown on the chart on the back page, are particularly interesting. It will be noticed that they range from almost 100% above normal to about 95% below normal. No industry can long prosper where extremes are that great.

The swing from high to low in mortgage financing is not so great as that in building, but greater than the swing in sales. The rapid rise in mortgage financing during 1933 and 1934 was due largely to the activity of the HOLC.

Real estate brokerage, as shown by the black areas, has been increasing at a fairly consistent rate during the past two years. There is every reason to believe that this increase will continue during the next five years, probably at a much accelerated rate.

The charts on the opposite page, with the exception of the one on building material prices, show the various factors we are studying in Greater Saint Louis. A precise study which is constantly made of all factors affecting real estate in a single representative community is often of greater value in determining the sequence of events in collapse and recovery than a general study of the entire country with its resulting loss of accurate detail.




PRELIMINARY CHARTING
REAL ESTATE ACTIVITY IN PRINCIPAL CITIES
COPYRIGHT 1935
REAL ESTATE ANALYSTS. INC.
SAINT LOUIS
SALES
MARCH.1935 39.5
FEBRUARY.1935 39.0
MARCH.1934 48.0
NEW MORTGAGE FINANCING
MARCH.1935 58.5
FEBRUARY.1935 51.2
MARCH.1934 48.5
NEW FAMILY ACCOMMODATIONS
FEBRUARY.1935 92.0
JANUARY.1935 92.8
FEBRUARY.1935 94.9
NEW FAMILY ACCOMMODATIONS PRIOR TO 1921, ESTIMATED FROM A FEW CITIES WHERE RECORDS WERE AVAILABLE.
NEW MORTGAGE FINANCING
THE SOLID BLACK AREAS SHOW GRAPHICALLY REAL ESTATE BOOMS AND DEPRESSIONS. THEY ARE BASED ON THE RELATIONSHIP OF VOLUNTARY TRANSFERS OF REAL ESTATE TO THE NUMBER OF FAMILIES.
ALL DATA ON THE CHART ARE SHOWN AS PERCENTAGES ABOVE OR BELOW NORMAL.
ARMISTICE
STOCK MARKET CRASH
BANK COLLAPSE
NEW MORTGAGE FINANCING
NEW FAMILY ACCOMMODATIONS
PERCENTAGE ABOVE NORMAL
PERCENTAGE BELOW NORMAL
NORMAL
+100 +90 +80 +70 +60 +50 +40 +30 +20 +10 0 −10 −20 −30 −40 −50 −60 −70 −80 −90 −100
1916 1917 1918 1919 1920 1921 1922 1923 1924 1925 1926 1927 1928 1929 1930 1931 1932 1933 1934 1935 1936 1937 1938
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